MORNEAU SHEPELL MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE THREE MONTHS ENDED MARCH 31, 2016

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For more information about Morneau Shepell, visit our website **morneaushepell.com**

MANAGEMENT'S DISCUSSION AND ANALYSIS

Morneau Shepell Inc. ("Morneau Shepell" or the "Company") was incorporated pursuant to the laws of the Province of Ontario on October 19, 2010, and as of January 1, 2011, is the successor of Morneau Sobeco Income Fund (the "Fund").

This Management's Discussion and Analysis ("MD&A") covers the three months ended March 31, 2016 and should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements of Morneau Shepell and notes thereto for the three months ended March 31, 2016, and the MD&A and the audited consolidated financial statements and notes thereto for the year ended December 31, 2015.

All financial information is presented in Canadian dollars and in accordance with International Financial Reporting Standards, unless otherwise noted. Certain totals, subtotals and percentages may not reconcile due to rounding.

This MD&A contains "forward-looking statements" within the meaning of applicable securities laws, such as statements concerning anticipated future events, results, circumstances, performance or expectations that are not historical facts. They are based on certain factors and assumptions, including expected growth, results of operations, business prospects and opportunities. Use of words such as "may", "will", "expect", "believe", or other words of similar effect may indicate a "forward-looking" statement. These statements are not guarantees of future performance and are subject to numerous risks and uncertainties, including those described in our publicly filed documents (available on SEDAR at www.sedar.com) and in this MD&A under the heading "Risks and Uncertainties". Those risks and uncertainties include the ability to maintain profitability and manage growth, ability to pay dividends, reliance on information systems and technology, reputational risk, dependence on key clients, reliance on key professionals and general economic conditions. Many of these risks and uncertainties can affect our actual results and could cause our actual results to differ materially from those expressed or implied in any forward-looking statement made by us or on our behalf. Given these risks and uncertainties, investors should not place undue reliance on forward-looking statements as a prediction of actual results. All forward-looking statements in this MD&A are qualified by these cautionary statements. These statements are made as of the date of this MD&A and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise. Additionally, we undertake no obligation to comment on analyses, expectations or statements made by third parties in respect of us, our financial or operating results or our securities.

To assist investors in assessing our financial performance, this discussion also makes reference to certain non-IFRS measures such as EBITDA, adjusted EBITDA, EBITDA margin, adjusted EBITDA margin, Free Cash Flow, Normalized Free Cash Flow, twelve-month rolling Normalized Payout Ratio, and twelve-month rolling Normalized Payout Ratio including changes in adjusted non-cash operating working capital. EBITDA and adjusted EBITDA are intended to represent an indication of Morneau Shepell's capacity to generate profit from operations before taking into account management's financing decisions and costs of consuming tangible capital assets and intangible assets, which vary according to their vintage, technological currency, and management's estimate of their useful life. Accordingly, EBITDA comprises profit before finance costs, income tax expenses, depreciation and amortization, while Adjusted EBITDA represents EBITDA before taking into account certain unusual expenditures. EBITDA margin represents EBITDA as a percentage of revenue, and Adjusted EBITDA margin represents Adjusted EBITDA as a percentage of revenue. We believe both EBITDA and Adjusted EBITDA are useful measures in evaluating our performance and we utilize them to monitor compliance with debt covenants. We also believe that Free Cash Flow, Normalized Free Cash Flow, the twelve-month rolling Normalized Payout Ratio, and the twelve-month rolling Normalized Payout Ratio including changes in adjusted non-cash operating working capital, are useful supplemental measures of Morneau

Shepell's ability to generate cash after deducting capital expenditures required to maintain or expand the business. We also utilize them to make decisions related to dividends to shareholders. These ratios, however, are non-IFRS measures and therefore, should not be seen as a substitute for cash flow from operating activities. Free Cash Flow is defined as cash provided by operating activities adjusted for capital expenditures. Normalized Free Cash Flow is defined as cash provided by operating activities, adjusted for changes in non-cash operating working capital, capital expenditures, current income taxes (net of income taxes paid) and certain unusual expenditures.

Non-IFRS measures do not have any standard meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers. Non-IFRS measures are reconciled to IFRS measures elsewhere in this MD&A.

OUTSTANDING SHARE DATA

The Company is authorized to issue an unlimited number of common shares and 10 million preferred shares. Each common share entitles the holder to one vote at all meetings of shareholders and represents an interest in dividends declared by the Company and an undivided interest in the net assets of the Company. As at May 9, 2016, Morneau Shepell had 48,285,115 common shares, nil preferred shares and $74.7 million aggregate principal amount of 5.75% convertible debentures outstanding. In the event all of the outstanding 5.75% convertible debentures are converted into common shares of the Company by the holders prior to their maturity date, the total number of common shares issuable would be approximately 5,000,000. The number of long-term incentive plan ("LTIP") units, including those that remain unvested, that are outstanding and may be converted to common shares is approximately 2,460,000.

BUSINESS OVERVIEW

Morneau Shepell is the largest Canadian firm providing health and productivity, administrative and retirement solutions. We deliver solutions to assist employers in managing the financial security, health and productivity of their employees. With almost 4,000 employees in offices across North America, we offer services to approximately 20,000 organizations in Canada, the United States and around the globe directly and through our distribution channel partners.

We derive our revenue primarily from fees charged to clients for consulting engagements, outsourcing engagements, employee and family assistance programs and absence management solution services.

Fees from consulting engagements are charged based on billable hours or on a fee-for-service basis. In some cases, consulting engagements may be billed on a fixed-fee basis, although these engagements are typically much smaller and the services are delivered over a shorter period of time. For some benefits consulting assignments which involve the purchase of an insurance policy underwritten by an insurance company, we may be paid commissions (in lieu of fees) by the client's insurance company, which is a common practice in the industry. These commissions are based on a percentage of the premiums paid by the client to the insurance company and our policy is to disclose them to our client. We assume no underwriting risk as the insurance policy is underwritten by the insurance company.

Our Administrative Solutions practice is characterized by fixed contracts, which typically have three-year to five-year terms. Most outsourcing contracts contain an upfront implementation fee and an ongoing monthly service fee. Implementations usually take three to twelve months and involve transferring the administration of a client's pension and/or benefits plans onto our systems, tailoring our systems and training our employees. Additional services provided that are outside the scope of the outsourcing contract are usually paid on a fee-for-service basis. A small number of contracts contain a large up front customization and implementation fee, with lower ongoing maintenance fees.

In the billing for Employee Support Solutions ("ESS") services, a portion of the ESS client agreements require payment of a minimum retainer and incremental usage-based fees. The remainder of the ESS agreements are billed based on an actual usage or fixed fees. Most ESS agreements may be terminated by the client upon 30 to 60 days' notice to us, however, it is typical for ESS agreements to continue for multiple years and many automatically renew on an annual basis.

Fees from Absence Management Solutions ("AMS") services, such as attendance support and disability management are generally based on negotiated fees or a formula tied to the nature of the service being provided. Like most ESS agreements, most workplace health and productivity agreements may be terminated by the client upon 30 to 60 days' notice to us; however, it is typical for these agreements to continue for multiple years and many automatically renew on an annual basis. Fees for workers compensation services are charged based on billable hours or on a fee-for-service basis.

Our largest operating expense is compensation and related costs. This includes salaries, annual performance-based bonuses, benefits, payroll taxes, independent service providers and temporary staffing services.

The remaining operating expenses include rent and occupancy costs, technology costs (including equipment leases, telecommunications, and software licenses and maintenance), client service costs (such as printing and travel), training, marketing, office costs, professional fees and insurance.

2016 FIRST QUARTER SUMMARY AND OUTLOOK

In thousands of dollars	**Three months ended March 31, 2016**	**Three months ended March 31, 2015**
Revenue	$149,123	$138,392
Organic Revenue[1]	$140,997	$133,388
Adjusted EBITDA	$28,828	$26,644
Adjusted EBITDA margin	19.3%	19.3%
Normalized Free Cash Flow	$15,308	$14,175
Profit	$7,049	$8,211

(1) Organic Revenue is defined as revenue excluding acquisitions not in the comparative period and divestitures, and the Health Republic Insurance of New York (HRINY), who was given a wind down of business directive by the New York State Department of Financial Services in 2015, and is calculated as follows:

(In thousands of dollars)	**Three months ended March 31, 2016**	**Three months ended March 31, 2015**
Revenue	**$149,123**	**$138,392**
Acquisitions	(8,126)	–
HRINY	–	(5,004)
Organic Revenue	**$140,997**	**$133,388**

First quarter:

We had a solid first quarter of 2016 and continued to deliver revenue and adjusted EBITDA growth versus the comparative quarter in 2015. Highlights of the first quarter include:

- Revenue and Organic Revenue growth of 7.8% and 5.7%, respectively, versus the comparative period from new business wins and continued growth with existing clients primarily from our Administrative Solutions and ESS lines of business.

- An increase in adjusted EBITDA of $2.2 million to $28.8 million versus the comparative period.

We expect our Organic Revenue growth to continue to be in-line with our longer term historical performance. We also expect that our continued investment in our business and our established and prospective client base will continue to yield positive results for the Company.

2016 FIRST QUARTER OPERATING RESULTS SUMMARY

Results of Operations	**Three Months Ended March 31**	
Selected Unaudited Consolidated Financial Information	**2016**	**2015**
(In thousands of dollars except per share amounts)		
Revenue	$149,123	$138,392
Deduct:		
Salaries, benefits and contractor expenses	102,966	94,629
Other operating expenses	23,578	20,517
Finance costs	3,949	3,525
Depreciation and amortization	8,697	7,958
Income tax expenses	2,884	3,552
Profit for the period	**7,049**	**8,211**
Add:		
Finance costs	3,949	3,525
Depreciation and amortization	8,697	7,958
Income tax expenses	2,884	3,552
EBITDA[(1)]	**$22,579**	**$23,246**
Adjustments:		
Sublease loss provision	–	700
Mercer Canada Outsourcing conversion costs	2,826	2,698
Reorganization and operational effectiveness initiatives	3,423	–
Adjusted EBITDA	**$28,828**	**$26,644**
EBITDA margin [(2)]	15.1%	16.8%
Adjusted EBITDA margin [(2)]	19.3%	19.3%
Cash provided by operating activities	$15,322	$10,425
Deduct: Capital expenditures [(3)]	(5,973)	(5,892)
Free Cash Flow [(4)]	**9,349**	**4,533**
Add (deduct):		
Changes in non-cash operating working capital	1,594	8,766
Mercer Canada Outsourcing conversion – capital	–	107
Current income taxes, net of income taxes paid	(1,884)	(1,929)
Adjustments to EBITDA [(5)]	6,249	2,698
Normalized Free Cash Flow [(6)]	**$15,308**	**$14,175**
Earnings per Share (basic)	$0.14	$0.17
Earnings per Share (diluted)	$0.14	$0.16
EBITDA per Share (basic)	$0.45	$0.47
Adjusted EBITDA per Share (basic)	$0.58	$0.54
Dividends declared	9,413	9,360
Twelve-month rolling Normalized Payout Ratio [(7)]	59.8%	74.8%
Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital [(8)]	58.7%	107.5%

Footnotes:

(1) "EBITDA" is defined as profit before finance costs, income tax expenses, depreciation and amortization.

(2) "EBITDA margin" represents EBITDA as a percentage of revenue, and "Adjusted EBITDA margin" represents Adjusted EBITDA as a percentage of revenue.

(3) "Capital Expenditures" includes additions to capital assets and intangible assets but excludes additions to capital assets and intangible assets acquired through business acquisitions, and is presented net of disposals.

(4) "Free Cash Flow" is defined as cash provided by operating activities adjusted for capital expenditures.

(5) Adjustments to EBITDA do not include the sublease loss provision. This amount has been excluded as it has already been added back in cash from operating activities before the change in non- cash operating working capital.

(6) "Normalized Free Cash Flow" is defined as cash provided by operating activities, adjusted for changes in non-cash operating working capital, capital expenditures, current income taxes (net of income taxes paid) and certain unusual expenditures.

(7) "Twelve-month rolling Normalized Payout Ratio" is defined as dividends declared divided by Normalized Free Cash Flow for the rolling twelve month period.

(8) "Twelve-month rolling Normalized Payout Ratio, including changes in adjusted non-cash operating working capital" is defined as dividends declared divided by the Twelve-month rolling Normalized Free Cash Flow, including changes in non-cash operating working capital adjusted for unusual fluctuations. For the twelve-month period ended March 31, 2016, the non-cash operating working capital was adjusted for by ($10,952), which represents 2014 leasehold inducements receivable related to capital expenditures collected in the third and fourth quarter of 2015 and the year over year change in non-cash operating working capital resulting from the HRINY deferred implementation costs write-off. For the twelve-month period ended March 31, 2015, the non-cash working capital was adjusted by $2,886 which represents the change in the leasehold inducement receivable related to capital expenditures.

ANALYSIS OF FIRST QUARTER 2016 OPERATING RESULTS

Revenue

Revenue for the three months ended March 31, 2016 increased by $10.7 million, or 7.8%, to $149.1 million compared to $138.4 million for the same period in 2015. Excluding revenue from acquisitions not in the comparative period and HRINY in 2015 our organic revenue grew by $7.6 million or 5.7%. The increase is primarily coming from our Administrative Solutions and ESS lines of business as a result of increased activity with existing clients and new client wins in both Canada and US.

Salaries, Benefits and Contractor Expenses

Salaries, benefits and contractor expenses for the three months ended March 31, 2016 increased by $8.3 million, or 8.8%, to $103.0 million compared to $94.6 million for the same period in 2015. Excluding the net increase in compensation expense of $2.0 million resulting from acquisitions not in the comparative period net of the wind down of HRINY in 2015, compensation expense increased by $6.3 million. The increase is mainly attributable to higher reorganization and operational effectiveness initiatives costs of $3.4 million, and $2.9 million from general increases to support the Company's continued growth.

Other Operating Expenses

Other operating expenses for the three months ended March 31, 2016 increased by $3.1 million, or 14.9%, to $23.6 million compared to $20.5 million for the same period in 2015. Excluding the net increase in other operating expenses of $0.2 million resulting from acquisitions not in the comparative period net of the wind down of HRINY in 2015, other operating expenses grew by $2.9 million due to general increases required to support the Company's continued growth.

Finance Costs

Finance costs for the three months ended March 31, 2016 increased by $0.4 million, or 12.0%, to $3.9 million compared to $3.5 million for the same period in 2015. The increase is due to incremental borrowing required to support 2015 acquisitions, and higher accretion interest related to discounted liabilities.

Depreciation and Amortization

Depreciation and amortization for the three months ended March 31, 2016 increased by $0.7 million, or 9.3%, to $8.7 million compared to $8.0 million for the same period in 2015. The increase is due to higher amortization of acquired customer relationships, and internally developed software.

Income Tax Expenses

Income tax expenses decreased by $0.7 million to $2.9 million compared to $3.6 million for the same period in 2015 primarily due to a decrease in profit from operations before income taxes.

Profit for the Period

As a result of the changes noted above, the profit for the three months ended March 31, 2016 decreased by $1.2 million to $7.0 million compared to $8.2 million for the same period in 2015.

Key Financial Measures: EBITDA, Adjusted EBITDA, Free Cash Flow and Normalized Free Cash Flow

Adjusted EBITDA and EBITDA

Adjusted EBITDA increased by $2.2 million, or 8.2%, to $28.8 million compared to $26.6 million for the same period in 2015. The increase is primarily due to growth in revenue of $10.7 million, partially offset by an increase in salaries and other operating expenses of $8.5 million after EBITDA adjustments. These adjusted EBITDA items do not constitute a part of the Company's on-going operating expenses. Below is a description of the first quarter ended March 31, 2016 adjustments:

- Mercer Canada Outsourcing conversion costs represent systems and service improvements required to support the clients acquired in November, 2012. The process commenced immediately after the acquisition and we have substantially completed the original planned conversion. As a result of the savings we are realizing from the original conversion, we have decided to convert the remaining clients acquired which were not included in the original conversion. Based on our project plan this additional conversion will commence in the second quarter 2016 and finish in the third quarter of 2017. The estimated remaining conversion costs are approximately $5.0 million to $7.0 million.

- Reorganization and operational effectiveness initiatives represents severance and professional fees incurred as a result of the loss of HRINY, and corporate reorganizations and employee terminations to achieve post-acquisition planned synergies.

EBITDA decreased by $0.7 million to $22.6 million compared to $23.2 million for the same period in 2015.

Free Cash Flow

Free Cash Flow for the three months ended March 31, 2016 increased by $4.8 million to $9.3 million compared to $4.5 million for the same period in 2015. The increase is due to higher cash provided by operating activities of $4.9 million.

Normalized Free Cash Flow

Normalized Free Cash Flow for the three months ended March 31, 2016 increased by $1.1 million to $15.3 million compared to $14.2 million for the same period in 2015. The increase is mainly due to higher cash generated from operating activities, before non-cash operating working capital and EBITDA adjustments, of $1.1 million.

LIQUIDITY AND CAPITAL RESOURCES

Cash Flows

The following table provides an overview of the Company's cash flows for the periods indicated:

Cash Flow Information

Selected Consolidated Financial Information:

Cash provided by (used in): *(In thousands of dollars)*	**Three months ended March 31, 2016**	Three months ended March 31, 2015
Operating activities	**$ 15,322**	$ 10,425
Financing activities	**(11,531)**	(3,534)
Investing activities	**(6,420)**	(6,108)
Increase/(decrease) in cash	**$ (2,629)**	$ 783

Cash provided by operating activities for the three months ended March 31, 2016 increased by $4.9 million to $15.3 million compared to $10.4 million for the same period in 2015. The increase is primarily due to an improvement in the change in non-cash operating working capital.

Cash used in financing activities for the three months ended March 31, 2016 increased by $8.0 million to $11.5 million compared to $3.5 million for the same period in 2015. This increase was due to lower incremental borrowings as a result of higher cash provided by operating activities.

Cash used in investing activities for the three months ended March 31, 2016 increased by $0.3 million to $6.4 million compared to $6.1 million for the same period in 2015. This increase was primarily due to higher acquisition related payments of $0.2 million, and higher additions to intangible and capital assets of $0.1 million.

Dividends to Shareholders

Monthly dividends were declared for shareholders of record on the last business day of each month and were paid approximately on the 15th day of the following month. Monthly dividends were $0.065 per share during the quarter. The Company continued to declare the same monthly dividend amount in April 2016.

We consider the amount of cash generated by the business in determining the amount of dividends to pay to shareholders. We do not generally consider profit or loss in setting the level of dividends as this is a non-cash metric and is not reflective of the level of cash flow that we generate.

The twelve-month rolling Normalized Payout Ratio at March 31, 2016 was 59.8% compared to 74.8% for the same period in 2015. The decrease in the Normalized Payout Ratio is primarily due to higher Normalized Free Cash Flow and lower capital expenditures during the past twelve months.

Capital Expenditures

Our capital expenditures typically include information technology hardware and software (external and internally developed), leasehold improvements, and office furniture. Such amounts are expected to be funded from our operating cash flow. Additional capital expenditure requirements may result from significant business expansion. Capital expenditures for the three months ended March 31, 2016 was $6.0 million and remained comparable to same period last year at $5.9 million.

Contractual Obligations

Commitments

We lease office space and selected equipment under operating lease agreements with terms ranging from one to fifteen years. We also have revolving loans under the credit facility arrangement and convertible debentures described under the section “Capital Resources”.

A summary of contractual obligations, which outlines the year the payments are due is as follows:

(In thousands of dollars)	**Total**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021 and thereafter**
Long-term debt	$ 233,747	$ –	$ 233,747	$ –	$ –	$ –	$ –
Convertible debenture	74,904	–	74,904	–	–	–	–
Operating leases, net	100,036	11,462	13,876	12,939	12,107	11,860	37,792
Total	**$ 408,687**	**$ 11,462**	**$ 322,527**	**$ 12,939**	**$ 12,107**	**$ 11,860**	**$ 37,792**

We are party to various subleases to which we would be liable for the rental payment in the case of a default by the subtenants. The minimum payments and the aggregate sublease income related to these premises have been netted against the operating leases amounts reported above. We consider the risk of default by the subtenants to be low therefore no accrual has been set up.

Contingent Consideration

The purchase price for Dion Durrell Workers’ Compensation, Bensigner Du Pont & Associates, Inc. (“BDA”), and the U.S. health and welfare benefits administration business of Ceridian are contingent on future business results and the estimated remaining installments of $0.6 million, $2.6 million ($2.0 million U.S.), and $1.6 million ($1.2 million U.S.), respectively, are due in 2016 and 2017. These contingent future installments have been recognized as an acquisition liability on the statement of financial position at their estimated discounted amounts as at March 31, 2016.

In addition there is $0.2 million of contingent consideration due from 2016 through 2018 for other smaller acquisitions.

We have no material contractual obligations other than those described in this MD&A and have no off-balance sheet financing arrangements.

Capital Resources

The following table provides an overview of our capital resources:

(In thousands of dollars)		**As at March 31, 2016**		**As at December 31, 2015**
Cash	$	–	$	1,900
Bank indebtedness		729		–
Long- term debt, net of debt issuance costs		242,307		241,846
Convertible debenture, net of issuance costs		73,985		73,760
Shareholders' equity		298,004		301,114

As at March 31, 2016 our working capital, excluding the convertible debentures which are now a current liability, was $77.8 million which remained comparable to $78.6 million as at December 31, 2015. Additional details related to the changes in working capital from year end are included under the selected statement of financial position data section below.

Long-term debt

The long-term debt, net of debt issuance costs, increased by $0.5 million from $241.8 million as at December 31, 2015 to $242.3 million as at March 31, 2016. This increase is the result of an increase in borrowing under the Company's credit facility agreement to finance acquisition related payments and business growth.

The Company has an amended credit facility agreement (the "Amended Credit Facility Agreement") maturing on November 29, 2017 which provides for a revolving facility of $300.0 million (including a swing line of $7.0 million).

The interest rates for the Amended Credit Facility Agreement are floating, based on a margin over certain referenced rates of interest. The applicable margin may vary up and down depending on the ratio of our consolidated debt to Adjusted EBITDA as defined in the Amended Credit Facility agreement.

We are in compliance with all of the required financial covenants.

Interest-rate Swap

In February 2014, the Company entered into a forward starting interest-rate swap agreement to hedge against the variable interest rate component on $160.0 million notional amount borrowed under the credit facility agreement for the period from January 5, 2015 up to and ending November 29, 2017. The notional amount of this swap is $160.0 million and is used to fix the variable component of the interest rate at 1.98%, before the applicable margin, for the duration of this period and has been designated as a cash flow hedge.

Convertible debenture

On March 27, 2012, the Company issued $75.0 million principal amount of 5.75% Convertible Unsecured Subordinated Debentures ("Debentures") for net proceeds of $71.4 million allocated between debt and equity. The Debentures pay interest semi-annually on March 31 and September 30, and have a maturity date of March 31, 2017.

The debentures are convertible at the option of the holder to common shares at a conversion price of $15.00 per common share. The Company had the option to redeem the debentures on and after March 31,

2015 and at any time prior to March 31, 2016 at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest provided that the weighted average trading price for the 20 consecutive trading days ending five days preceding the date on which the notice of redemption is given is at least 125% of the conversion price of $15.00. On and after March 31, 2016, but prior to the maturity date, the debentures are redeemable at a redemption price equal to 100% of their principal amount plus accrued and unpaid interest. On redemption or maturity the Company may elect to repay the principal and satisfy its interest obligations by issuing the Company's common shares.

SELECTED STATEMENT OF FINANCIAL POSITION DATA

The following table provides an overview of our selected statement of financial position data:

(in thousands of dollars)	**As at March 31, 2016**	**As at December 31, 2015**
Current assets	$ 161,240	$ 156,410
Non-current assets	596,117	599,238
Current liabilities	157,378	77,761
Non-current liabilities	301,975	376,773

Current Assets

Current assets as at March 31, 2016 increased by $4.8 million to $161.2 million from $156.4 million as at December 31, 2015. The increase is primarily attributable to unbilled fees of $4.2 million due to growth in the business and the revenue billing cycle in accordance with contract terms, an increase in prepaid expenses of $2.8 million due to timing of vendor payments, and an increase in the current portion of deferred implementation costs of $0.6 million. This was partially offset by a bank indebtedness balance as at March 31, 2016 compared to a cash balance of $1.9 million at December 31, 2015 year end, and an income taxes payable balance compared to an income taxes receivable balance of $0.7 million as at year end.

Non-current Assets

Non-current assets as at March 31, 2016 decreased by $3.1 million to $596.1 million from $599.2 million at December 31, 2015. The decrease is primarily due to lower intangible assets and capital assets of $2.9 million due to depreciation and amortization in excess of capital expenditures, and a decrease in the non-current portion of deferred implementation costs of $0.5 million, which was partially offset by an increase in the deferred tax asset balance of $0.5 million.

Current Liabilities

Current liabilities as at March 31, 2016 increased by $79.6 million to $157.4 million from $77.8 million as at December 31, 2015. The increase is mainly due to the reclassification of the $74.0 million convertible debenture payable from a non-current to current liability as at March 31, 2016 as a result of its maturity date being March 31, 2017. The remaining increase is attributable to an increase in deferred revenue of $3.3 million due to higher prepayments from customers, a $1.4 million increase in trade and other payable due to timing of payments to vendors, an increase in the current portion of future consideration related to acquisitions of $1.4 million, an income taxes payable balance of $0.9 million as at March 31, 2016 compared to an income taxes receivable balance at December 31, 2015 at year end, and bank indebtedness of $0.7 million compared to a cash balance at December 31, 2015. This was partially offset by the repayment of the promissory notes of $2.5 million which were issued as partial consideration for the acquisition of Groupe AST in 2014.

Non-current Liabilities

Non-current liabilities as at March 31, 2016 decreased by $74.8 million to $302.0 million from $376.8 million at December 31, 2015. The decrease is mainly due to the reclassification of the $74.0 million convertible debenture payable from a non-current to current liability as at March 31, 2016. The remaining decrease is attributable to a decrease in the non-current portion of future consideration related to acquisitions of $1.3 million and a decrease in the non-current portion of the interest rate swap liability of $0.4 million, which was partially offset by an increase in long-term debt of $0.5 million, and $0.4 million increase in the deferred tax liability.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

In our year ended December 31, 2015 audited consolidated financial statements and accompanying notes, and in our 2015 annual MD&A, we have identified the accounting policies and estimates that are critical to the understanding of our business operations and our results from operations. The unaudited condensed consolidated interim financial statements for the three months ended March 31, 2016 have been prepared using the same accounting policies consistent with those applied in the audited consolidated financial statements for the year ended December 31, 2015. Our critical accounting estimates and assumptions remain substantially unchanged.

Future Accounting Changes

We have reviewed new and revised accounting standards that have been issued, but are not yet effective. See note 3 of the unaudited condensed consolidated interim financial statements for the three months ended March 31, 2016 for further information.

RISKS AND UNCERTAINTIES

The results of operations, business prospects and financial considerations of Morneau Shepell remain subject to a number of risks and uncertainties and are affected by a number of factors outside of our control. For more information about our risks and uncertainties, please refer to our 2015 annual MD&A. The risk and uncertainties remain substantially unchanged from those disclosed in our 2015 annual and fourth quarter MD&A.

SUPPLEMENTARY SUMMARY OF QUARTERLY RESULTS

Selected Unaudited Consolidated Financial information (in thousands of dollars except per share amounts)

Quarter ended	March 31, 2016	December 31, 2015	September 30, 2015	June 30, 2015	March 31, 2015	December 31, 2014	September 30, 2014	June 30, 2014
Revenue	149,123	145,696	140,778	142,420	138,392	131,195	132,703	140,877
Profit (loss) [1, 3]	7,049	2,422	(3,487)	9,272	8,211	461	7,235	9,246
EBITDA	22,579	16,748	7,391	24,653	23,246	15,819	22,321	25,026
Adjusted EBITDA	28,828	25,211	25,886	28,060	26,644	22,581	24,429	27,240
EBITDA margin	15.1%	11.5%	5.3%	17.3%	16.8%	12.1%	16.8%	17.8%
Adjusted EBITDA margin	19.3%	17.3%	18.4%	19.7%	19.3%	17.2%	18.4%	19.3%
Earnings per share (basic)[1]	0.14	0.05	(0.07)	0.19	0.17	0.01	0.15	0.19
Earnings per share (diluted)[1]	0.14	0.05	(0.07)	0.19	0.16	0.01	0.15	0.19
Normalized Free Cash Flow	15,308	18,178	13,177	16,054	14,175	13,446	9,357	13,039
Dividends declared	9,413	9,379	9,365	9,363	9,360	9,358	9,359	9,352
Twelve-month rolling normalized payout ratio	59.8%	60.8%	65.9%	70.6%	74.8%	74.1%	70.6%	68.4%
Twelve-month rolling normalized payout ratio, including changes in adjusted non-cash operating working capital	58.7%	66.5%	89.0%	114.5%	107.5%	98.1%	108.0%	117.9%
Total assets	757,357	755,648	762,021	775,921	772,449	756,655	759,968	767,980
Total long-term debt [2]	316,292	315,606	325,686	323,923	303,904	295,310	300,590	300,452

Footnotes:

(1) The profit, basic and diluted earnings per share, and total assets for the quarter ended June 30, 2014 was revised to reflect the retrospective adjustment due to the finalization of the intangible assets valuation for Groupe AST in the third quarter of 2014. This resulted from a change to the purchase price allocation and faster amortization of acquired customer contract intangible assets. The amounts previously reported for these figures for the quarter ended June 30, 2014 was as follows:

	June 30, 2014
Profit	10,105
Earnings per share (basic)	0.21
Earnings per share (diluted)	0.20
Total assets	769,583

(2) Includes convertible debentures issued on March 27, 2012.

(3) The profit for the quarter ended September 30, 2015 included the write-down of deferred implementation costs and impairment charges totaling $15,100 related to HRINY.

Disclosure Controls and Procedures

Our disclosure controls and procedures have been designed to provide reasonable assurance that all relevant information is identified to our Disclosure Committee to ensure appropriate and timely decisions are made regarding public disclosure.

The Chief Executive Officer and the Chief Financial Officer have concluded that the disclosure controls and procedures are appropriately designed as at March 31, 2016.

Internal Control over Financial Reporting

Management is responsible for designing internal controls over financial reporting, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. In designing these controls, Management used the *Internal Control – Integrated Framework* (COSO 2013 Framework) published by The Committee of Sponsoring Organizations of the Treadway Commission.

The Chief Executive Officer and the Chief Financial Officer have concluded that the internal controls over financial reporting are appropriately designed as at March 31, 2016. No changes were made in our internal controls over financial reporting during the first quarter ended March 31, 2016, that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Additional Information

Morneau Shepell's shares currently trade on the Toronto Stock Exchange under the symbol MSI. Additional information relating to us, including all public filings and our Annual Information Form, is available on the SEDAR website (sedar.com) and on our own website at morneaushepell.com.

The content of this MD&A reflects information known as of May 9, 2016.